EFFECTS OF
THE MUTUAL SECURITY PROGRAM
ON THE
UNITED STATES ECONOMY

May 14, 1957

• OFFICE OF STATISTICS AND REPORTS
INTERNATIONAL COOPERATION ADMINISTRATION

SUMMARY

This report has been prepared in order to help answer inquiries regarding the effects of our international aid expenditures on the domestic economy of the United States.

In no way should these findings be interpreted as a "justification" for the Mutual Security Program, but simply as a side effect of it. The justification and purpose of the program is, of course, the additional security it brings to the United States.

1. In recent years the U. S. has expended a little over $4 billion annually on aid to our allies and other friendly nations--chiefly under the Mutual Security Program. This has amounted to somewhat more than 1 percent of the gross national product, about 6.5 percent of the total U. S. government expenditures, and about 10 percent of expenditures for national security. About 600,000 jobs in the U. S. are attributed to the expenditure of foreign aid funds.

2. The burden of the Mutual Security Program on the U. S. taxpayer is an alternative to the much greater cost of providing our military protection entirely from U. S. resources and U. S. bases.

3. Although aid to other countries does not have major effects on the U. S. economy as a whole, it has important effects on exports and employment in certain industries and in certain localities in the U. S.

4. Aid does not build up injurious foreign competition for U. S. business. By helping free countries develop their economies, it assists them to become better customers of the U. S. The statistical record shows that the more developed a country the better customer it is for other industrilized countries.

5. International aid has helped insure an accessible source for U. S. imports of the strategic and other raw materials that are essential to the continued rapid growth of U. S. industry.

6. U. S. aid helps underdeveloped countries to provide the prerequisites for establishing private enterprise and investment and achieving self-sustaining economic growth. To this extent, aid plants the seeds for its own replacement by investment of private capital from domestic and overseas sources.

Revised May 14, 1957

Over-All Effects

Total new grants and new credits under all U. S. programs of aid to other countries ranged downward from $6.1 billion in calendar year 1949 to $4.9 billion in 1956. This represented a range from 2.4 percent to 1.1 percent of the U. S. gross national product and from 14.3 percent to 6.6 percent of Federal Government expenditures (See Table 1). Average annual foreign aid expenditures in these years were about $5.4 billion, the bulk being under the Mutual Security Program.

From these statistics, the Study prepared for the U. S. Senate Special Committee by the National Planning Association concluded that U. S. aid programs were a minor factor in the U. S. economy as a whole.* Nevertheless, the inescapable fact is that each year these government expenditures absorb a sizeable part of our production which otherwise could go for domestic consumption or investment.

From the standpoint of the U. S. taxpayer, these aid programs impose a substantial burden. In weighing this burden, however, we must realize that it is an alternative to the much heavier burden that would fall on the United States if we tried to provide ourselves with the same amount of military protection by "going it alone" and falling back entirely on our own resources. Compared with our annual total "national security" expenditures of about $40 billion, foreign aid programs are actually quite small - currently a little over one-tenth. Yet this assistance to our allies enables them, together with their own resources, to maintain defensive strength in number of army divisions nearly ten times our own and in number of air squadrons nearly equal to our own. In forward bases for the use of the U. S. Air Force and other military forces the saving is immense. Indeed, the amount that would be added to our military budget for larger and more numerous aircraft, vessels, airfields, warning systems, and civil defense in order to secure the same protection from U. S. bases alone would be many times the annual cost of the Mutual Security Program.

Table 1. Total U. S. Foreign Aid Compared with Total U. S. Government Expenditures and Gross National Product*
(Calendar Years)

	1949	1950	1951	1952	1953	1954	1955	1956
				- Billions of Dollars -				
Total Gross Grants & Credits	$6.1	$4.6	$5.0	$5.6	$7.1	$5.3	$4.7	$4.9
Total U. S. Govt. Expenditures	42.6	42.0	58.0	73.0	76.2	69.6	72.2	74.8
Gross Natl. Product	257.3	285.1	328.2	345.2	363.2	360.7	390.9	412.4
				- Percent -				
Aid as % of U.S. Expenditures	14.3%	11.0%	8.6%	7.7%	9.3%	7.6%	6.5%	6.6%
Aid as % of Gross Natl. Product	2.4	1.6	1.5	1.6	2.0	1.5	1.2	1.1

* U. S. Senate, Special Committee to Study the Foreign Aid Program, Study No. 9, The Foreign Aid Programs and the United States Economy, prepared by the National Planning Association, March 1957.

U. S. Aid Expenditures by Area of Source

Many people are under a misapprehension as to the way in which foreign countries receive U. S. assistance. They believe that U. S. dollars are just turned over to the foreign countries to spend as they see fit. On the contrary, with a few exceptions, the assisted countries never see the dollars. This is because the U. S. aid funds go directly to U. S. business to pay for American goods which are shipped to the assisted countries. In some cases, because of the great distance from U. S. suppliers or other cost factors, the goods are purchased offshore. However, these offshore procurement dollars provide our allies with purchasing power which is used to buy non-aid goods and services from the U. S. in ordinary commercial transactions. "Offshore procurement" is part of the government's policy requiring that aid goods be bought in the cheapest market in order to minimize the cost to the American taxpayer. Thus the needs for textile fabrics for Far Eastern countries may be met partly through procurement in Japan. But the dollars received by the Japanese in these offshore procurement transactions also go into the U. S. economy as they are spent for the many kinds of American goods which are imported into Japan.

Data on the distribution of aid expenditures between offshore procurement and procurement in the U. S. are available only for the Mutual Security Programs. These figures show that from the beginning of these programs in April 1948 through June 30, 1956, 78 percent of total MSP expenditures were made directly in the United States. Some of the variations in the U. S. percentage among commodities are shown in Chart 1 for the non-military Mutual Security Program.

Table 2

Mutual Security Program Expenditures by Area of Source

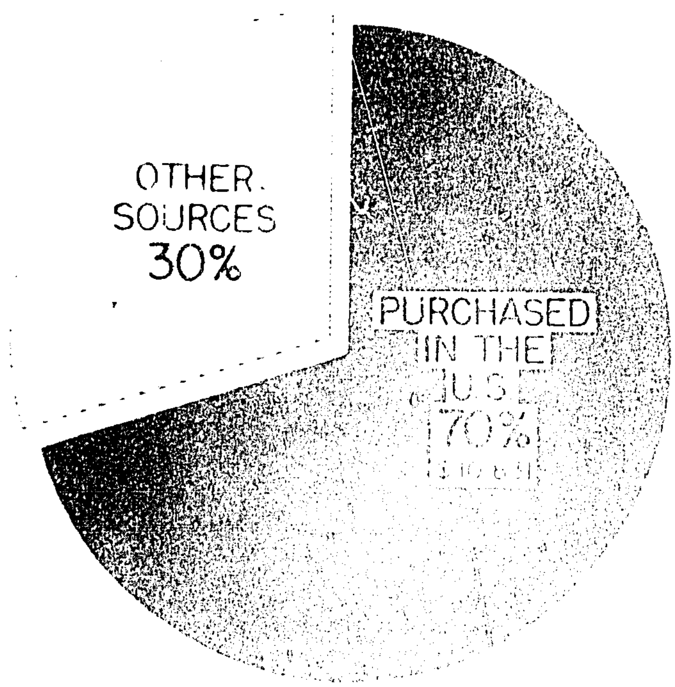
	Total Expended through June 30, 1956	Expended Directly in U. S. Amounts	Expended Directly in U. S. Percent
	(Millions of Dollars)		
Military Assistance	$14,228	$12,265	86%
Non-military (Commodities)	15,513	10,831	70
Total MSP	29,741	23,096	78

Mutual Security Program and U. S. Shipping

In FY 1956 non-military MSP funds paid about $50 million to U. S. shipping concerns, or 71 percent of total ocean freight expenditure by ICA for the movement of non-military goods. Since the beginning of the program ICA (and its predecessor agencies) has made payments to U. S. flag vessels of $884 million--74 percent of the total ocean freight expenditures for non-military aid.

MOST OF THE GOODS COME FROM THE U.S.

15, 513



MAJOR COMMODITIES PURCHASED IN THE U.S.

Effects of All U. S. Aid Programs on U. S. Exports

Shipments of commodities from the United States resulting from expenditures made directly within the U. S. and from offshore procurement under all U. S. programs of assistance to other countries were estimated by the National Planning Association in its Study for the Senate Special Committee. These estimates cover the Mutual Security Program, Export-Import Bank loans and the various special programs for particular countries. As shown in Table 3 one-fourth of U. S. exports in calendar year 1955 resulted from foreign aid expenditures. The foreign aid percentage will be about this same percentage of total U. S. exports in 1956 and 1957. In the earlier years of these programs the percentage was even higher - 46 percent in 1949 and 38 percent in 1950.

Table 3

All U. S. Aid Programs

Calendar Year	U.S. Shipments Resulting from Aid Expenditures as Percent of Total U.S. Exports
1949	46%
1950	38
1951	28
1952	32
1953	34
1954	31
1955	25

Source: Senate Special Committee, Study No. 9.

Effects of All Aid Programs on Exports of Industrial Commodities

The aid proportion of U. S. exports varies greatly among different classes of commodities. Thus in 1955, according to the NPA statistics, foreign aid accounted for 21 percent of our exports of construction, mining and conveying equipment, and 70 percent of exports of aircraft engines and parts (Table 4). In the same year the aid export proportion for fertilizer was 37 percent, transport equipment (other than automotive) 59 percent, machine tools 21 percent, and electrical equipment 31 percent.

Table 4

Shipments under All U. S. Financial Assistance Programs Compared with Total U. S. Exports - Industrial Commodities Including Military, Calendar Year 1955

	Millions of Dollars		Aid as Per-
	Total Exports	Aid Shipments	cent of Exports
Chemicals & Related Products	$1,017.4	$180.8	18%
Lumber & Food Products	147.7	30.5	21
Hides, Skins, Leather & Leather Products	106.7	19.5	18
Paper & Allied Products	291.7	47.5	16
Textile Products	539.1	100.0	19
Crude Oil & Petroleum Products	644.4	123.5	19
Coal and Related Products	494.6	104.9	21
Iron & Steel Mill Materials & Products (including ferro alloys)	1,204.7	213.1	18
Copper & Copper Products (including brass and bronze)	219.6	44.1	20
Zinc & Zinc Products	7.0	0.4	6
Lead & Lead Products	1.5	0.1	7
Alum & Alum Products	16.9	3.6	21
Other Non Ferrous Metals & Products	61.4	9.4	15
Metallic Ores & Concentrates	47.5	6.7	14
Non Metallic Minerals (excluding fertilizer minerals) & Products	284.2	48.4	17
Ordnance	531.3	410.9	77
Construction, Mining, Conveying Equipment	535.0	113.1	21
Metal Working Machinery	118.9	24.9	21
Machine Tools	88.4	18.3	21
Electric Equipment	738.7	232.1	31
Generators & Motors	99.4	22.9	23
Engines & Turbines	161.9	35.6	22
Industrial Machinery N.E.C.	864.9	173.5	20
Tractors	345.3	72.2	21
Agricultural Machinery (except Tractors)	122.6	20.2	16
Motor Vehicles, Engines, Parts	1,394.7	362.3	26
Aircraft Engines & Parts	728.5	512.1	70
Other Transportation Equipment	260.7	153.9	59
Miscellaneous Industrial Products	1,139.9	202.5	18
Total Industrial	12,214.6	3,287.0	27

Source: Senate Special Committee, Study No. 9.

Effects on Exports of Agricultural Commodities

Shipments under U. S. aid programs have represented a very large part of total agricultural exports. In the fiscal year ending June 30, 1956 U. S. agricultural exports totaled $3.5 billion, of which $1.4 billion or 41% were under the various U. S. aid programs, including the Mutual Security Program, PL 480, and Export-Import Bank loans. Shipments under the MSP were about one-fourth ($355 million) of total aid exports of $1,421 million. The foreign aid proportion was much greater in the case of exports of surplus commodities. As shown in Table 5, the aid percentage in this year (FY 1956) represented 71 percent of total exports for bread grains, 72 percent for cotton, 58 percent for coarse grains and 72 percent for dairy products.

Table 5

U.S. Aid Shipments and Total Exports of Agricultural Commodities (FY 1956)

	Millions of Dollars			% of U.S. Exports	
	ICA	Total Govt. Programs	Total U.S. Exports	ICA	Total Govt. Programs
Total Agricultural Commodities	$355	$1,421	$3,493	10.2 %	40.7%
Bread Grains (Wheat & Rye)	113	423	599	18.9	70.6
Cotton & Linters	117	276	382	30.6	72.3
Fats, Oils & Oilseeds	37	142	621	6.0	22.9
Coarse Grains	32	232	399	8.0	58.1
Dairy Products	17	204	283	6.0	72.1
Other Agricultural Commodities	39	144	1,209	3.2	11.9

Source: U.S. Department of Agriculture

Foreign Aid and Employment

It has been estimated that in 1955 about 600,000 people were employed directly or indirectly in production resulting from foreign aid expenditures. This does not mean that in the absence of foreign aid there would be 600,000 fewer jobs. Without foreign aid there would be some compensating employment - either from the resulting increase of other Government programs, or from lower taxes and greater output of goods for private consumption or investment. In some years such as 1949 and 1954 when economic activity was slowing down, the foreign aid programs probably helped support the labor market.

In the industrial fields foreign aid employment has been scattered over many sections of the country, but concentrated in the midwest, the northwest and in California.

Table 6

Estimated Employment Attributable to All U. S. Aid Programs, Calendar Year 1955 by Industry

Industry	No. of Employees
Wheat, Flour	3,600
Rice, Mfr.	500
Other Grain Preparations, Mfr.	300
Fats and Oils	1,000
Feeds and Fodder, Mfr.	500
Dairy Products, Mfr.	100
Eggs, Mfr.	400
Fruits and Nuts, Mfr.	1,000
Vegetables & Preparations, Mfr.	1,100
Fish & Products, Mfr.	200
Meats, Mfr.	700
Sugar & Related Products, Mfr.	400
Misc. Agricultural Products, Mfr.	800
Fertilizer	1,400
Tobacco Products, Mfr.	500
Chemicals & Related Products, Mfr.	16,100
Lumber & Wood Products	10,800
Hides, Skins, Leather & Leather Products	2,300
Paper & Allied Products	9,100
Textile Products	13,300
Crude Oil & Petroleum Prod.	5,600
Coal & Related Products	11,500
Iron & Steel Mill Products (Incl. Ferro Alloys)	66,400
Copper & Copper Products (Incl. Brass & Bronze)	7,700
Zinc & Zinc Products	2,000
Lead & Lead Products	1,000
Alum & Alum Products	4,600
Other Non-Ferros Metal & Products	1,300
Metallic Ores & Concent.	4,700
Non-Metallic Minerals	7,900
Ordnance	13,100
Construction, Mining Conveying Equipment	23,400
Metal Working Machinery	4,700
Machine Tools	2,600
Electric Equipment	31,100
Generators & Motors	2,700
Engines & Turbines	3,200
Indust. Machinery N.E.C.	26,800
Tractors	6,200
Agricultural Machinery (except Tractors)	2,400
Motor Vehicles & Parts	17,800
Aircraft Engines & Parts	72,900
Other Transport. Equip.	3,900
Misc. Indust. Products	34,700
Agricultural Products, Unmanufactured	100,700
Electric Light & Power	100
Transportation	34,000
Trade	12,900
Services	13,200
Unallocated	15,000
Total	598,200

Source: Senate Special Committee, Study No. 9.

The estimated distribution of 600,000 jobs resulting from foreign aid in 1955 is shown in Table 6. A total of 100,000 jobs were in agriculture, 34,000 were in transportation, 13,000 were in trade, 13,000 in services, and the remainder were in industry.

In the industrial fields the largest numbers of jobs were in aircraft (73,000), iron and steel products (66,000), and electrical equipment (31,000). Other important industries were construction, mining and conveying equipment (23,000) and motor vehicles (18,000).

The geographic concentration of foreign aid-induced employment is also of some interest. Table 7 shows the estimated breakdown State by State, insofar as such identification was possible. About 40 percent of the total of 600,000 jobs could not be allocated to specific States. The amounts shown therefore represent the minimum number of jobs in each State resulting from expenditure of foreign aid funds. These estimates were prepared by the National Planning Association. The States with the largest number of jobs were Ohio (40,000), New York (38,000), California (35,000), Illinois (31,000), and Michigan (30,000). There were only seven States in which no employment was specifically attributed to foreign aid programs, but some of the 265,000 jobs that could not be allocated to particular States may have been in these seven States.

Economic Aid Does Not Build Up Injurious Foreign Competition for U.S. Business

It is sometimes claimed that aid to other countries for economic reconstruction, improvement, or development results in greater foreign production which injures American industry through competition in markets abroad and at home. This argument overlooks two important aspects of the process of economic development. One of these is that in the early stages of its development a country needs basic facilities such as roads, railroads, bridges, power plants, schools, hospitals, and a corps of civil service and business administrators and technicians. Helping countries through this stage of development does not involve production which is competitive with U.S. industry. In fact, as shown above, during such a period the U.S. supplies goods and services commensurate with our foreign aid expenditures.

The other aspect of development that is overlooked is that in the later stages, when the basic facilities and industrial plants are producing commodities, most of the output will be needed for many years to raise the standard of living of the underdeveloped country. Also required during this period will be raw and semi-finished and finished manufactured materials and products from developed countries. In other words, developing countries import an increasing volume of goods from developed countries, and even developed countries import more - particularly manufactured goods--as they continue to grow industrially. The United States as the world's leading industrial nation therefore gains from the industrial growth of other countries.

Table 7

Estimated Employment in Each State Attributable to All U. S. Aid Programs in Calendar Year 1955

State	Number of Employees	State	Number of Employees
Alabama	2,872	North Carolina	3,959
Arizona	517	North Dakota	--
Arkansas	324	Ohio	39,767
California	34,882	Oklahoma	1,674
Colorado	235	Oregon	972
Connecticut	9,971	Pennsylvania	34,010
Delaware	--	Rhode Island	2,235
Florida	813	South Carolina	324
Georgia	1,919	South Dakota	--
Idaho	188	Tennessee	1,919
Illinois	30,694	Texas	12,082
Indiana	15,265	Utah	329
Iowa	2,051	Vermont	--
Kansas	4,599	Virginia	3,065
Kentucky	1,664	Washington	4,123
Louisiana	1,045	West Virginia	3,737
Maine	388	Wisconsin	9,111
Maryland	4,244	Wyoming	--
Massachusetts	10,726		
Michigan	30,302	Total allocated by state	333,350
Minnesota	2,320	Total not allocable by state	264,850
Mississippi	3,045		
Missouri	1,764	GRAND TOTAL	598,200
Montana	376		
Nebraska	35		
Nevada	--		
New Hampshire	248		
New Jersey	17,307		
New Mexico	--		
New York	38,249		

Source: Senate Special Committee, Study No. 9.

Comparison of Industrial Growth and Imports

The relationship between industrial growth and imports is well illustrated by the case of Canada (see Table 8.) Between 1900 and 1956 Canadian manufacturing production increased twelvefold and imports increased sevenfold. Growth of imports from the U.S. during this period kept pace with the growth in Canada's total. In the case of manufactured goods an increasing percentage of the total came from the U.S.

As shown in Table 9, similar trends are reflected in European countries. Between the period 1881-85 and 1929 manufacturing production in the United Kingdom increased 60 percent while imports of manufactured goods increased 155 percent. During the same period when German manufacturing production was increased fourfold, imports of manufactured goods doubled. In the post World War II period, between 1950 and 1956, these trends were accelerated.

Brazil illustrates the same tendency for underdeveloped countries, with both industrial production and imports more than doubling in the 17 years between 1938 and 1955.

Industrialization of a country even increases its <u>per capita</u> intake of the products of other countries - a fact which is <u>dramatically illustrated</u> in U.S. export statistics. As shown in Chart 2, U.S. exports per inhabitant of importing countries are much greater for developed countries than for underdeveloped countries. In 1956, for example, U.S. exports to the Netherlands were \$52 per capita compared with less than \$2 per capita for Pakistan and \$18 per capita to the United Kingdom compared with 69 cents for India.

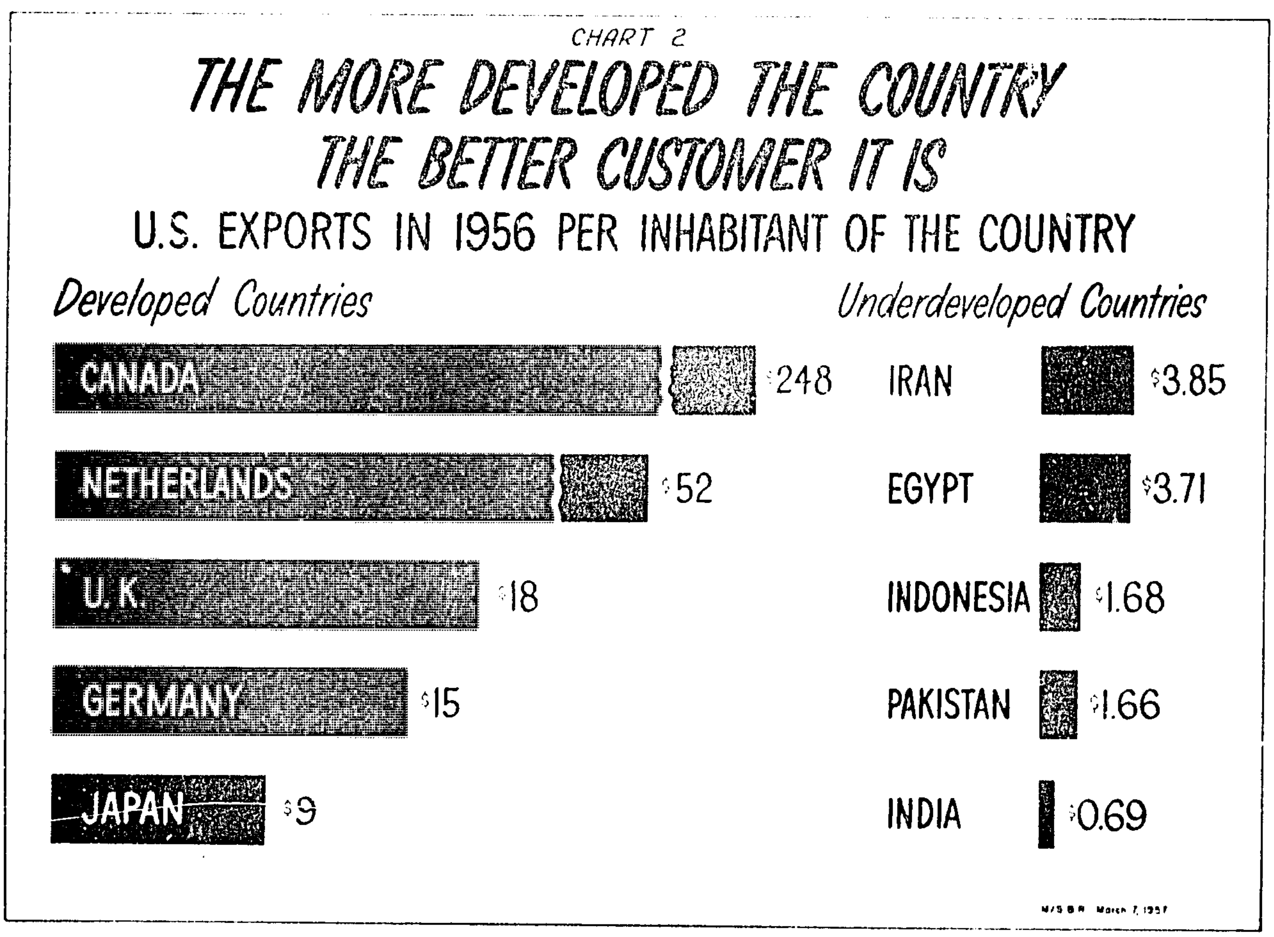


Table 8

Canada, Imports and Production

Period	Quantity Indexes		Imports from U.S.		
	Mfg. Production (1900=100)	Total Imports	Million of Dollars		Percent Fully or Chiefly Mfg'd
			Total	Fully or Chiefly Mfg's	
1900	100	100	$102	$57	56%
1910	220	172	218	125	57
1926-30 Av.	398	389	746	472	63
1936-39 Av.	447	251	424	271	64
1950	1,000	425	2,131	1,529	72
1954	1,102	542	2,961	2,463	83
1955	1,184	618	3,452		
1956 (est.)	1,255	723	4,200		

Source: Canada, Bureau of Dominion Statistics

Table 9

European Countries, Imports and Production - Indexes of Quantity

	United Kingdom		Germany	
	Manufacturing Production	Imports of Manufactured Goods	Manufacturing Production	Imports of Manufactured Goods
		1[illegible]=100		
1881-85	100	100	100	100
1896-1900	125	145	217	120
1926-1929	160	255	429	211
		1950=100		
Prewar	75	121	105	55
1950	100	100	100	100
1951	104	127	120	97
1952	100	123	127	139
1953	106	120	141	172
1954	115	130	158	237
1955	122	163	183	339
1956	122 (11 mos.)	162 (9 mos.)	197 (11 Mos)	371 (10 mos.)

Table 10

Brazil, Imports and Production - Indexes of Quantity 1953=100

Year	Industrial Production	Imports
1938	38	48
1951	88	105
1952	94	96
1953	100	100
1954	107	126
1955	112	123

Foreign Aid and U.S. Imports

There is no denying that to some extent the industrialization of other countries will result in greater overseas purchases by U.S. consumers. This has gone hand in hand with the growth of the U.S. economy, but it has not hindered that growth. It means that by importing we exercise our free choice as consumers to buy a variety of products in the cheapest and most specialized markets. In doing this, we make it possible for consumers in other countries to buy the many kinds of American products which they prefer.

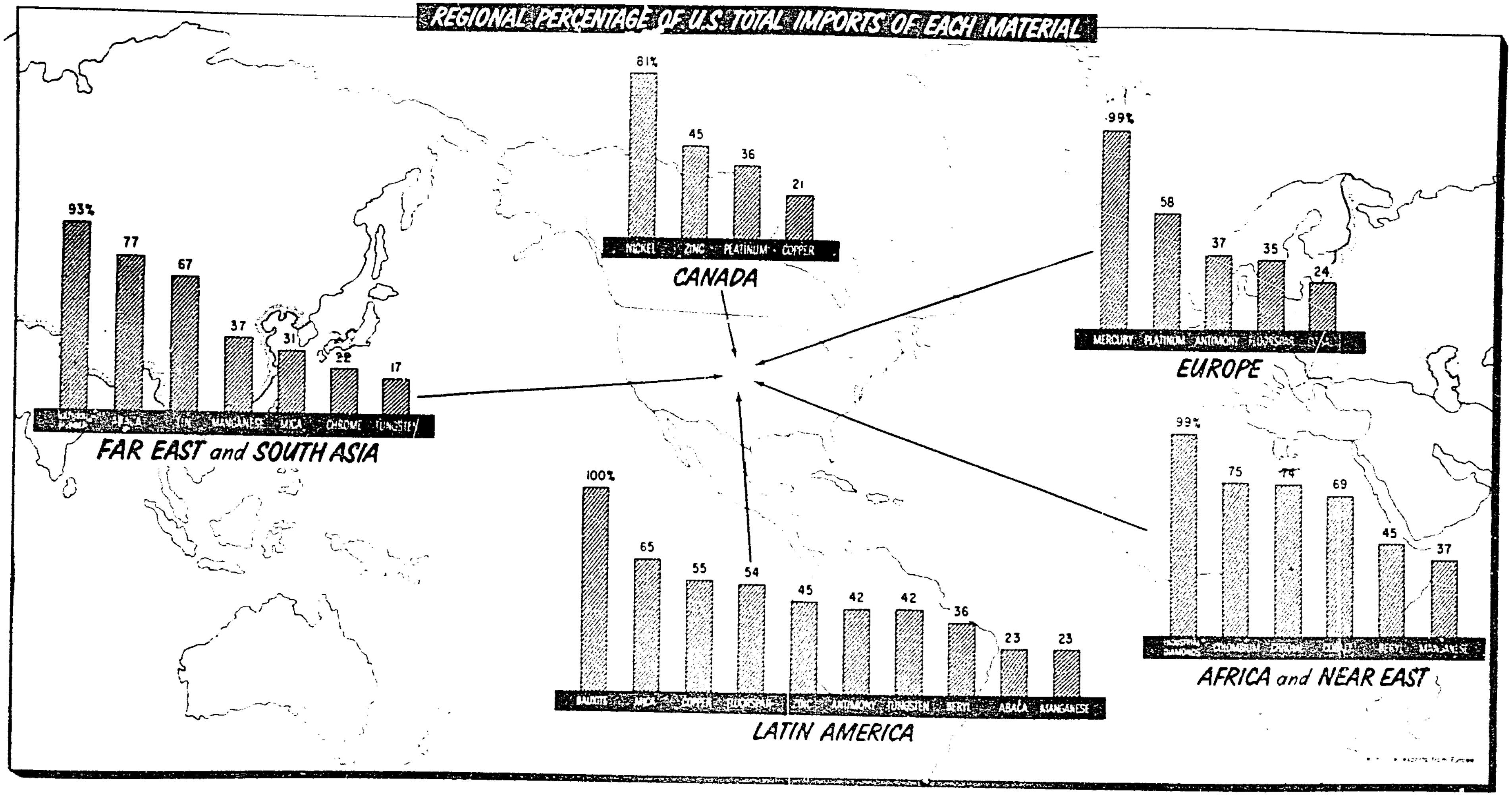
Aside from these considerations, aid to free countries has insured a source for U.S. imports of the strategic materials and other raw materials that are essential to the continued rapid growth of U.S. industry. Chart 3 shows the sources of such imports by region and the importance of each area in the total U.S. imports of each commodity. The lower panel of the chart indicates the import percentage of total U.S. annual supply for each of the commodities. Thus in the case of natural rubber our entire supply is imported and 93 percent comes from a few Free-World countries of the Far East. Chrome, which is used as an alloy in steel, is nearly all obtained from Africa and the Far East. Our entire supply of tin is obtained from outside the U.S., chiefly from countries in the Far East. Three quarters of the U.S. needs for bauxite (aluminum ore) must be met from non-U.S. origin, all of the imports being from Latin America.

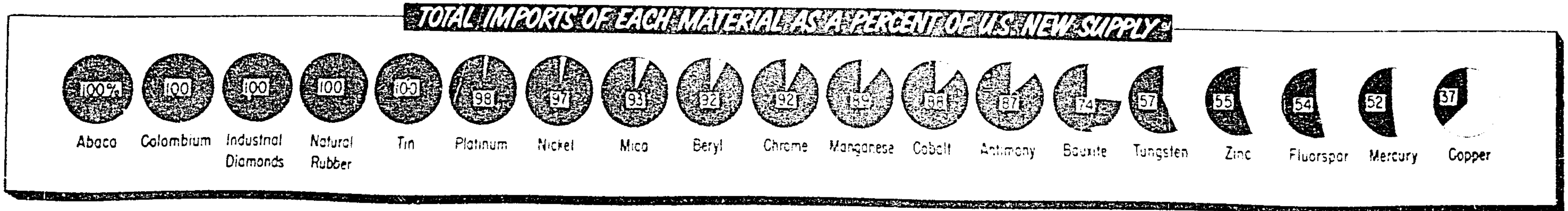
Foreign Aid, Private Enterprise, and Private Investment

Foreign aid helps to provide many of the prerequisites for the birth and growth of private enterprise and investment in the newly independent underdeveloped countries. These requirements are economic and political stability, essential public works, transportation, power and related facilities, and technical knowledge. Without this predevelopment capial, it is extremely difficult for the economy of an underdeveloped country to achieve self-sustaining growth. But when such growth is achieved the country will be in a position to attract private foreign capital and to provide private domestic investment which can take over the longer run development job.

As a means of hastening the reacning of this goal, the Mutual Security Program has included an investment guarantee program by which the U. S. government, for a fee, insures U. S. private investors against loss from inconvertibility of foreign currency receipts and loss through expropriation or confiscation.

U.S. STRATEGIC MATERIAL IMPORTS





a/ New supply equals production plus imports
NOTE: Based on preliminary quantity data for 1955

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